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TAGS: [EPET](#) [EFIN](#) [ENRG](#) [PREL](#) [PGOV](#) [VE](#) [HO](#)

SUBJECT: PETROCARIBE AS HONDURAN POLITICAL THEATER

REF: A. REF A: 07 TGG 1798  
[1B](#). REF B: 07 TGG 1818  
[1C](#). REF C: 08 TGG 0057  
[1D](#). REF D: 08 TGG 0084

Classified By: Ambassador Charles Ford for reasons 1.4 (b) and (d)

[11.](#) (C) Summary: Local media report President Manuel Zelaya will sign an agreement today (January 28) to import Venezuelan fuel on concessional terms through Petrocaribe. Venezuelan President Hugo Chavez reportedly signed the agreement in Caracas over the weekend. The Honduran Congress approved the outlines of an agreement January 24, even though President of Congress Roberto Micheletti is known to oppose a Petrocaribe deal. However, key details were left undefined, and Post understands Congress will still need to approve the actual contract -- if one exists -- before it can take effect. Embassy considers this back and forth over Petrocaribe to be part of the ongoing Honduran political theater. It may or may not result in the supply of Venezuelan oil to Honduras. But it will definitely affect the balance of Zelaya's term and the campaign to succeed him in 2009. Meanwhile, we suspect the political price for this Venezuelan "free lunch" is already being collected. End Summary.

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Zelaya to Sign Petrocaribe Deal  
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[12.](#) (U) Honduran news media reported January 28 that President Chavez signed the draft PetroCaribe agreement, discussed during his January 15 visit to Tegucigalpa (ref C), over the weekend at the conclusion of the sixth Bolivarian Alternative for the Americas (ALBA) summit in Caracas. Foreign Minister Milton Jimenez, who attended the summit as an observer, has reportedly brought the agreement back to Honduras for Zelaya to sign. Zelaya told the press he would sign it Monday (January 28).

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What's the Deal?  
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[13.](#) (U) According to press reports and Embassy sources, the two-year deal would initially involve purchase of 100 percent of the bunker fuel (heavy fuel oil) that Honduras uses to

generate 70 percent of its electricity, with automotive fuel possibly to be included later. Presentations to Congress and to donors imply the GOH would incur USD 345 million in debt during the first year of the deal, of which USD 285 million is expected to fall during 2008 (implying fuel supply would commence in April). Honduras would be required to pay 60 percent within 90 days, with the balance financed at 1 percent interest over 25 years with a two-year grace period. During his visit, Chavez said at least part of the bill could be paid in milk or other agricultural commodities, although Honduran agriculture reps have said the country does not currently have an exportable supply.

¶14. (C) According to Liberal Party Congressman Jose Azcona, a close associate of Congressional leader Micheletti, as originally proposed by Zelaya's team in November (ref B), the deal contemplated importing 100 percent of bunker fuel and 30 percent of automotive fuel. The deal currently being discussed is limited to bunker, possibly to comply with a debt ceiling being negotiated with the IMF (ref D) or possibly because of logistical and legal obstacles to importing gasoline and diesel.

¶15. (SBU) The proceeds to the GOH from the deal (from acquiring the fuel with 60 percent down, then selling it to power plants at full price) are to be put into a trust fund at the Central Bank, to be used for investments under the supervision of a "committee of notables." Thirty percent would be used to recapitalize the ailing state electric utility ENEE, 40 percent to construct hydroelectric plants and 30 percent for "social investments," primarily in agriculture. The trust fund idea appears to be in part to satisfy the IMF (which wants the funds to be used only for productive investment and prefers that they be sequestered at the Central Bank), in part to satisfy domestic critics in Congress and the private sector (who have criticized the principle of incurring debt for consumption) and in part to coopt certain private-sector leaders by giving them authority to spend the funds.

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Cure for what Ails Honduran Energy Sector?  
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¶16. (SBU) Honduras faces fiscal crises both in electricity supply and maintaining subsidies for automotive fuel. ENEE is losing an estimated USD 300 million a year, roughly 3 percent of GDP (ref A). ENEE's rates, despite recent increases, do not cover costs, and arrears to private power producers are estimated at 6 billion lempiras (USD 317 million). Enrique Flores Lanza, formerly Presidential Legal Advisor and now Minister of the Presidency, recently said the GOH was spending 10 million lempiras a day (USD 194 million a year) to subsidize gasoline and diesel fuel -- another 2 percent of GDP. President Zelaya has said publicly that his administration cannot maintain fuel subsidies without a PetroCaribe deal. He is running political ads on local TV taking credit for keeping pump prices low and seeking support for "further measures" to keep them that way -- a clear reference to Petrocaribe.

¶17. (SBU) However, we understand Petrocaribe requires that proceeds be used for anti-poverty programs and public investments, not subsidies or current spending, and the GOH has committed to the IMF and to Congress that it will comply with those terms (see above). In fact, Zelaya's own new ENEE director, Ricci Moncada, stated to TV reporters (carried January 28) that a Petrocaribe deal would not affect pump prices but contribute to investments for long-term economic growth.

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Political Theater -- Will Congress Approve a Deal?  
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¶18. (C) Political sources, including those close to former President and Liberal Party kingmaker Carlos Flores, tell us that Zelaya had hoped to sign a PetroCaribe deal during

Chavez's January 15 visit. However, the Venezuelan delegation reportedly balked on the grounds that too many logistical details were undefined, and Chavez did not want to be blamed if he could not implement the deal. Zelaya then sent to Congress a draft boilerplate agreement, void of details, hoping Congress would reject it. That would have allowed Zelaya to blame Congress when he inevitably has to raise pump prices in the near future. He reportedly even asked Micheletti to "stick it in the drawer" until details could be fleshed out. Instead Micheletti, a political rival of Zelaya's and a leading aspirant to succeed him in 2009, pushed the decree through the Congress January 24. This put the ball back in Zelaya's court, placing the onus on him to negotiate a viable agreement that meets the country's pressing energy needs while staying within IMF parameters.

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Comment  
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¶9. (C) We suspect this latest turn in Zelaya's on-again, off-again flirtation with PetroCaribe reflects:

-- his unwillingness to take needed steps to rationalize the energy sector, or desire to assign political blame for those steps to others (by sending an unworkable Petrocaribe deal to Congress, then, when they reject it, blaming them for what follows),

-- an effort to energize his populist base by aligning himself more closely with Chavez, and

-- per ref D, an effort to secure enough cash to skate through the final two years of his Presidency.

Zelaya may also think he can evade the conditions of both Petrocaribe and other donors and divert the funds to cover current spending, for corrupt ends or for the political campaign of his preferred successor, Patricia Rodas.

¶10. (C) As for why Chavez waited until 10 days after his visit to sign the agreement, we strongly suspect this was to extract the political "price" for the deal. This came in the form of: 1) participation as an observer at the ALBA summit, and 2) stating publicly that Honduras does not consider Colombia's FARC to be a terrorist group (ref D). End Comment.

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